

Message Text

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ACTION EUR-12

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E.O. 11652: N/A

TAGS: ENRG FR

SUBJECT: PETROLEUM DEVELOPMENTS

1. PETROLEUM PRODUCT PRICES WERE INCREASED IN FRANCE EFFECTIVE 15 SEPTEMBER TO COMPENSATE FOR INCREASED CRUDE COSTS RESULTING FROM STRENGTHENING OF DOLLAR. INCREASES WERE LOADED ON HOME HEATING OIL WHICH INCREASED BY 7 PERCENT (TO 61 FRANCS/100 LITERS) AND ON DIESEL OIL WHICH INCREASED BY 3.5 PERCENT (TO 1.16 FRANCS/LITER). NO INCREASE MADE ON GASOLINES OR ON HEAVY FUEL OILS--LATTER SO AS NOT TO DISCOURAGE INDUSTRIAL PICKUP. PERMITTED EX-REFINERY PRICES HAVE THUS RETURNED TO LEVELS OF JANUARY 1975, ELIMINATING TWO INTERVENING PRICE REDUCTIONS MADE DURING PERIOD OF RELATIVE DOLLAR WEAKNESS.

2. NEW DRAFT STATE BUDGET, APPROVED BY CABINET 24 SEPTEMBER, MAKES SEVERAL CHANGES IN PETROLEUM TAXATION. ACCORDING TO MIN FINANCE, CHANGES WILL BRING IN 1.2 BILLION FRANCS NEW REVENUE (THOUGH SOME UNCLASSIFIED

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OF THIS AMOUNT MAY SUBSEQUENTLY BE RETURNED TO INDUST-

RY AS SUBSIDY PAYMENTS. TAX CHANGES ARE:

A) REDUCTION OF DEPLETION ALLOWANCE FROM 27.5 TO 23.5 PERCENT. ALLOWANCE IN FUTURE TO BE PERMITTED IN FULL ONLY FOR PRODUCTION IN "PRIORITY" AREAS (NOT YET DEFINED BUT PRESUMABLY FRANCE AND CERTAIN AREAS IN WHICH FRENCH COMPANIES HAVE SPECIAL ARRANGEMENTS). COMMENT: MOST OBSERVERS HAD EXPECTED ALLOWANCE TO BE VIRTUALLY ELIMINATED FOLLOWING US LEGISLATION. IT ALSO INTERESTING THAT FOREIGN TAX CREDITS HAVE BEEN LEFT UNCHANGED IN PROPOSED BUDGET.

B) PARAFISCAL TAX (3 CENTIMES/100 LITERS) ON GASOLINE SALES, IMPOSED AT TIME OF 1973 PRICE RISE TO SOP UP INVENTORY PROFITS, HAS BEEN ELIMINATED. (700 MILLION FRANCS HAD BEEN COLLECTED IN 1974 AND REIMBURSED TO SELECTED COMPANIES). OTHER PETROLEUM TAXES WILL BE INCREASED, HOWEVER, BY 2 CENTIMES-- PROCEEDS OF WHICH WILL GO TO SUPPORT FUNDS USED TO SUBSIDIZE ENERGY COMPANY RESEARCH AND OTHER ACTIVITIES.

C) REDUCTIONS OF TAXABLE INCOME ALLOWED TO OIL COMPANIES IN CONNECTION WITH INVENTORY PROFITS TO BE REDUCED BY ONE THIRD. MIN FINANCE ESTIMATES THAT IT WILL COLLECT 600 MILLION FRANCS ADDITIONAL TAXES ANNUALLY BY THIS MEASURE, BUT INDUSTRY SOURCES CLAIM IT WILL COST THEM CONSIDERABLY MORE.

3. COMMENT: NEW TAX PROVISIONS APPEAR TO INDICATE THAT GOF WILL IN FUTURE PLACE GREATER EMPHASIS ON DIRECT SUBSIDY PAYMENTS TO OIL COMPANIES IN EVENT OF LOSSES, RATHER THAN FINANCIAL INCENTIVES TO AVOID SUCH LOSSES. INDUSTRY ALREADY REACTING CRITICALLY TO NEW TAX PROVISIONS, WHICH THEY CLAIM WILL HIT THEM AT VERY MOMENT WHEN THEY ALREADY SUFFERING SUBSTANTIAL LOSSES (REFINERIES CURRENTLY OPERATING AT APPROXIMATELY 65 PERCENT CAPACITY).

4. REPORT OF COMMITTEE WHICH ESTABLISHED LAST SPRING TO STUDY FRENCH PETROLEUM REGIME (LAURET COMMITTEE) WILL REPORTEDLY BE PUBLISHED IN MID-OCTOBER. IN SPITE OF EARLIER RUMORS THAT COMMITTEE WAS LEANING TOWARD MORE LIBERAL SYSTEM THAN FRANCE'S CURRENT DELEGATED UNCLASSIFIED

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STATE MONOPOLY, WE UNDERSTAND THAT COMMITTEE UNLIKELY TO MAKE ANY RECOMMENDATIONS FOR RADICAL CHANGE.
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